

**TENNESSEE SCHOOL BOARDS ASSOCIATION**

**AUDITED FINANCIAL STATEMENTS  
AND OTHER INFORMATION**

**DECEMBER 31, 2016 AND 2015**

TENNESSEE SCHOOL BOARDS ASSOCIATION

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# TENNESSEE SCHOOL BOARDS ASSOCIATION

## INTRODUCTION

Tennessee School Boards Association (“TSBA”) is pleased to present its Annual Financial Report for the years ended December 31, 2016 and 2015.

### **Responsibility and Controls**

TSBA is responsible for the financial statements and related information included in this report. A system of internal accounting controls is maintained to provide reasonable assurance that assets are safeguarded and that the books and records reflect only authorized transactions. Limitations exist in any system of internal controls. However, based on recognition that the cost of the system should not exceed its benefits, management believes its system of internal accounting controls maintains an appropriate cost/benefit relationship.

Management believes that its policies and procedures provide guidance and reasonable assurance that TSBA’s operations are conducted according to management’s intentions and to a high standard of business ethics. In management’s opinion, the financial statements present fairly, in all material respects, the net position of TSBA as of December 31, 2016 and 2015, and the changes in its net position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

### **Audit Assurance**

The unmodified opinion of our independent external auditors, Crosslin, PLLC, is included in this report.

**TENNESSEE SCHOOL BOARDS ASSOCIATION  
BOARD OF DIRECTORS**

Officers:

Debbie Shedden	- President
Wayne Blair	- President Elect
Faye Heatherly	- Vice-President
Susan Lodal	- Immediate Past President
Tim Stallings	- Treasurer

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District Directors:

Kathy Hall  
Marty Burlison  
Keys Fillauer  
Mark Clark  
Stoney Crockett  
Regina Waller  
Dr. Kelvin Moore  
Bobby Henderson  
Julie Bennett

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At-Large Members:

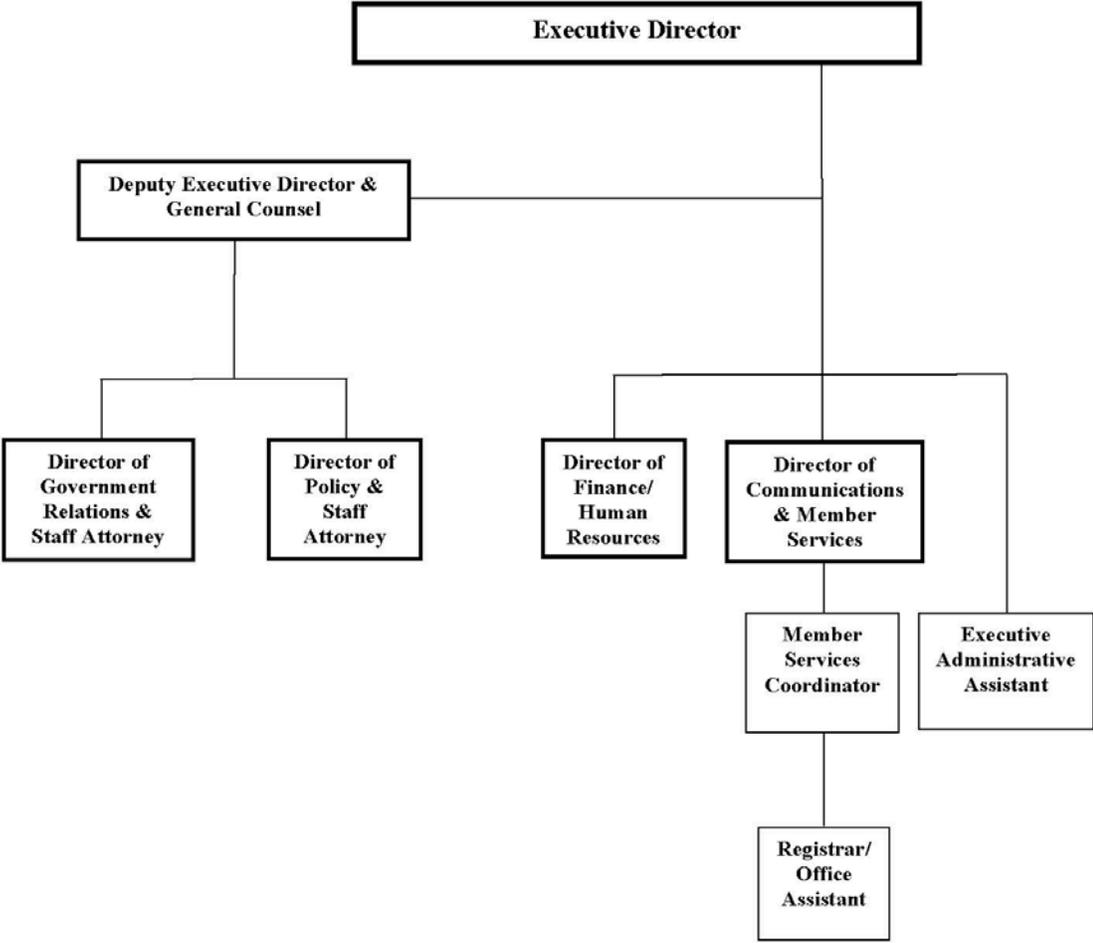
Brett Henley  
Teresa Jones  
Jo Ann Brannon  
David Testerman

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Ex-Officio Member:

Bob Alvey

**TENNESSEE SCHOOL BOARDS ASSOCIATION  
ORGANIZATIONAL CHART**





## INDEPENDENT AUDITOR'S REPORT

The Board of Directors  
Tennessee School Boards Association  
Nashville, Tennessee

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the Tennessee School Boards Association ("TSBA") as of and for the years ended December 31, 2016 and 2015, and the related notes to the financial statements, which collectively comprise TSBA's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.



We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of TSBA as of December 31, 2016 and 2015, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 7 through 12 and pension plan schedules and information on pages 34 through 36 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### ***Other Information***

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise TSBA's basic financial statements. The introductory section and the schedule of expenditures of state awards, as required by the State of Tennessee, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedule of expenditures of state awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.



The introductory section has not been subjected to the auditing procedures applied in the audits of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated August 9, 2017, on our consideration of TSBA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering TSBA's internal control over financial reporting and compliance.

*Crosslin, PLLC*

Nashville, Tennessee  
August 9, 2017

TENNESSEE SCHOOL BOARDS ASSOCIATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS

Tennessee School Boards Association's ("TSBA") management's discussion and analysis ("MD&A") is intended to provide an overview of the financial activities for the years ended December 31, 2016 and 2015. This information is placed at the beginning of the annual report to provide in layman's terms the past and current financial condition of TSBA. MD&A should not be taken as a replacement for the annual report, which includes the independent auditor's opinion, basic financial statements and other supplemental information that presents all of the financial activities of TSBA.

**FINANCIAL HIGHLIGHTS**

Fiscal Year 2016:

- TSBA's assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources by \$3,336,376 (net position) as of December 31, 2016. This compares to the previous year when net position was \$2,979,365.
- Total net position at December 31, 2016, is comprised of the following:
  - Investment in capital assets of \$1,376,279 and
  - Unrestricted net position of \$1,960,097.
- Net position increased by \$357,011 during the year ended December 31, 2016, primarily due to increases of \$73,404, \$108,005, and \$119,995 in school board academy grants, contracted services, and investment income, respectively.

Fiscal Year 2015:

- TSBA's assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources by \$2,979,365 (net position) as of December 31, 2015. This compares to the previous year when net position was \$2,819,458.
- Total net position at December 31, 2015, is comprised of the following:
  - Investment in capital assets of \$1,346,758 and
  - Unrestricted net position of \$1,632,607.
- Net position increased by \$159,907 during the year ended December 31, 2015, primarily due to an increase of \$44,460 in membership dues collected as well as an increase of \$71,130 in the TSBA OPEB Trust Administration fees collected.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

The financial statements consist of three parts: management's discussion and analysis ("MD&A"), the basic financial statements, and required supplementary information. The financial statements include statements of net position, statements of revenues, expenses and changes in net position, statements of cash flows and notes to the financial statements.

TENNESSEE SCHOOL BOARDS ASSOCIATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS

The statements of net position provide a record or snapshot of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources at the close of each fiscal year. They present the financial position of TSBA on a full accrual historical cost basis. The statements of revenues, expenses and changes in net position present the results of the business activities over the course of each fiscal year. The statements of cash flows are related to the other financial statements by the way they link changes in assets, deferred outflows, liabilities, and deferred inflows to the effects on cash and cash equivalents over the course of the fiscal years. The notes to the financial statements provide useful information regarding TSBA's significant accounting policies, significant account balances and activities, certain material risks, obligations, commitments, contingencies and subsequent events, as applicable.

**FINANCIAL ANALYSIS**

**Net Position**

*Fiscal Year 2016 as Compared to Fiscal Year 2015:*

	<u>2016</u>	<u>2015</u>	<u>Amount Change</u>
Current assets	\$3,348,631	\$3,151,954	\$ 196,677
Noncurrent assets - capital assets	1,376,279	1,346,758	29,521
Deferred outflows of resources	<u>262,829</u>	<u>106,295</u>	<u>156,534</u>
Total assets and deferred outflows of resources	<u>4,987,739</u>	<u>4,605,007</u>	<u>382,732</u>
Current liabilities	1,039,166	1,054,183	( 15,017)
Noncurrent liabilities	480,753	499,021	( 18,268)
Deferred inflows of resources	<u>131,444</u>	<u>72,438</u>	<u>59,006</u>
Total liabilities and deferred inflows of resources	<u>1,651,363</u>	<u>1,625,642</u>	<u>25,721</u>
Investment in capital assets	1,376,279	1,346,758	29,521
Unrestricted	<u>1,960,097</u>	<u>1,632,607</u>	<u>327,490</u>
Total net position	<u>\$3,336,376</u>	<u>\$2,979,365</u>	<u>\$ 357,011</u>

- Net position increased by \$357,011, or 12% during the year ended December 31, 2016, primarily due to increases of \$73,404, \$108,005, and \$119,995 in school board academy grants, contracted services and investment income, respectively.

TENNESSEE SCHOOL BOARDS ASSOCIATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS

*Fiscal Year 2015 as Compared to Fiscal Year 2014:*

	<u>2015</u>	<u>2014</u>	<u>Amount Change</u>
Current assets	\$3,151,954	\$2,919,325	\$ 232,629
Noncurrent assets - capital assets	1,346,758	1,399,893	( 53,135)
Deferred outflows of resources	<u>106,295</u>	<u>131,172</u>	<u>( 24,877)</u>
Total assets and deferred outflows of resources	<u>4,605,007</u>	<u>4,450,390</u>	<u>154,617</u>
Current liabilities	1,054,183	974,929	79,254
Noncurrent liabilities	499,021	440,046	58,975
Deferred inflows of resources	<u>72,438</u>	<u>215,957</u>	<u>(143,519)</u>
Total liabilities and deferred inflows of resources	<u>1,625,642</u>	<u>1,630,932</u>	<u>( 5,290)</u>
Investment in capital assets	1,346,758	1,399,893	( 53,135)
Unrestricted	<u>1,632,607</u>	<u>1,419,565</u>	<u>213,042</u>
Total net position	<u>\$2,979,365</u>	<u>\$2,819,458</u>	<u>\$ 159,907</u>

- TSBA's total net position increased \$159,907, or 6%, primarily due to an increase of \$44,460 on membership dues collected as well as an increase of \$71,130 in the TSBA OPEB Trust Administration fees collected during 2015.

TENNESSEE SCHOOL BOARDS ASSOCIATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS

**Changes in Net Position**

*Fiscal Year 2016 as Compared to Fiscal Year 2015:*

	<u>2016</u>	<u>2015</u>	<u>Amount Change</u>
Operating revenues:			
Charges for services	\$1,849,414	\$ 1,720,267	\$ 129,147
Department of Education grants:			
School Board Academies	257,687	184,283	73,404
Other services	<u>114,246</u>	<u>128,256</u>	<u>( 14,010)</u>
Total operating revenues	<u>2,221,347</u>	<u>2,032,806</u>	<u>188,541</u>
Operating expenses:			
Cost of services	851,906	678,920	172,986
Administration	1,075,821	1,119,713	( 43,892)
Depreciation	<u>51,541</u>	<u>69,253</u>	<u>( 17,712)</u>
Total operating expenses	<u>1,979,268</u>	<u>1,867,886</u>	<u>111,382</u>
Operating income	242,079	164,920	77,159
Investment income (loss)	114,932	( 5,063)	119,995
Gain on sale of capital assets	<u>-</u>	<u>50</u>	<u>( 50)</u>
Increase in net position	<u>\$ 357,011</u>	<u>\$ 159,907</u>	<u>\$ 197,104</u>

- Total operating revenues and operating expenses increased by \$188,541 and \$111,382, respectively. Operating revenues increased mainly due to increases of \$73,404 and \$108,005 in school board academy grants and contracted services, respectively. Operating expenses increased mainly due to an increase of \$52,913 in convention expense and additional costs of providing contracted services. Investment income increased \$119,995 mainly due to unrealized gains on investments during 2016 compared with unrealized losses on investments during 2015.

TENNESSEE SCHOOL BOARDS ASSOCIATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS

*Fiscal Year 2015 as Compared to Fiscal Year 2014:*

	<u>2015</u>	<u>2014</u>	<u>Amount Change</u>
Operating revenues:			
Charges for services	\$ 1,720,267	\$ 1,686,404	\$ 33,863
Department of Education grants:			
School Board Academies	184,283	210,423	( 26,140)
Other services	<u>128,256</u>	<u>57,126</u>	<u>71,130</u>
Total operating revenues	<u>2,032,806</u>	<u>1,953,953</u>	<u>78,853</u>
Operating expenses:			
Cost of services	678,920	794,302	(115,382)
Administration	1,119,713	1,077,142	42,571
Depreciation	<u>69,253</u>	<u>71,396</u>	<u>( 2,143)</u>
Total operating expenses	<u>1,867,886</u>	<u>1,942,840</u>	<u>( 74,954)</u>
Operating income	164,920	11,113	153,807
Investment (loss) income	( 5,063)	146,274	(151,337)
Gain (loss) on sale of capital assets	<u>50</u>	<u>( 420)</u>	<u>470</u>
Increase in net position	<u>\$ 159,907</u>	<u>\$ 156,967</u>	<u>\$ 2,940</u>

- Total operating revenues increased by approximately \$79,000 due to increased dues and fees. Total operating expenses decreased by \$75,000 due to additional costs incurred during the 2014 Convention associated with TSBA's 75th anniversary. During 2015, TSBA had an investment loss of approximately (\$5,100) compared to an investment income of approximately \$146,000, which impacted the changes in net position by (\$151,000).

**CAPITAL ASSETS**

TSBA's capital assets consist of land, building, and related improvements totaling \$1,346,659, \$1,316,140, and \$1,347,398, net at December 31, 2016, 2015, and 2014, respectively. Capital assets also consist of furniture and fixtures and automobiles of \$29,620, \$30,618, and \$52,495, net at December 31, 2016, 2015, and 2014, respectively. Further information regarding capital assets can be found in Note C to the financial statements.

TENNESSEE SCHOOL BOARDS ASSOCIATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS

**ECONOMIC ENVIRONMENT AND NEXT YEAR'S BUDGET**

TSBA's management considered many factors when developing the annual operating budget for the fiscal year ending December 31, 2017. The key factor was the consistency of expenses and the expectation that meeting attendance and contracted services would increase as in previous years.

**REQUESTS FOR INFORMATION**

This financial report is designed to provide a general overview of the TSBA's financial position and operations, both from a long-term viewpoint and for the current operating period. If you have any questions about this report or would like to request additional information, contact the Tennessee School Boards Association's Finance Department at 525 Brick Church Park Drive, Nashville, Tennessee 37207.

TENNESSEE SCHOOL BOARDS ASSOCIATION  
STATEMENTS OF NET POSITION

	December 31,	
	2016	2015
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 653,157	\$ 621,442
Investments	2,307,749	2,106,819
Accounts receivable	358,840	395,862
Prepaid expenses	28,885	27,831
Total current assets	3,348,631	3,151,954
Noncurrent assets:		
Capital assets not being depreciated	195,500	195,500
Capital assets subject to depreciation, net	1,180,779	1,151,258
Total noncurrent assets	1,376,279	1,346,758
Total assets	4,724,910	4,498,712
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Pensions	262,829	106,295
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable	18,935	21,036
Unearned revenues	1,020,231	1,033,147
Total current liabilities	1,039,166	1,054,183
Noncurrent liabilities:		
Net pension liability	454,227	473,404
Compensated absences	26,526	25,617
Total noncurrent liabilities	480,753	499,021
Total liabilities	1,519,919	1,553,204
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Pensions	131,444	72,438
<b>NET POSITION</b>		
Investment in capital assets	1,376,279	1,346,758
Unrestricted	1,960,097	1,632,607
Total net position	\$ 3,336,376	\$ 2,979,365

See accompanying notes to financial statements.

TENNESSEE SCHOOL BOARDS ASSOCIATION  
STATEMENTS OF REVENUE, EXPENSES, AND CHANGES IN NET POSITION

	<u>Year Ended December 31,</u>	
	<u>2016</u>	<u>2015</u>
OPERATING REVENUES		
Charges for services	\$ 1,849,414	\$ 1,720,267
Department of Education Grants - School Board Academies	257,687	184,283
Other services	<u>114,246</u>	<u>128,256</u>
Total operating revenue	<u>2,221,347</u>	<u>2,032,806</u>
OPERATING EXPENSES		
Cost of services	851,906	678,920
Administration	1,075,821	1,119,713
Depreciation	<u>51,541</u>	<u>69,253</u>
Total operating expenses	<u>1,979,268</u>	<u>1,867,886</u>
OPERATING INCOME	<u>242,079</u>	<u>164,920</u>
NONOPERATING REVENUES (EXPENSES)		
Investment income (loss)	114,932	(5,063)
Gain on disposal of capital assets	<u>-</u>	<u>50</u>
Total nonoperating revenues (expenses)	<u>114,932</u>	<u>(5,013)</u>
Increase in net position	357,011	159,907
NET POSITION, BEGINNING OF YEAR	<u>2,979,365</u>	<u>2,819,458</u>
NET POSITION, END OF YEAR	<u><u>\$ 3,336,376</u></u>	<u><u>\$ 2,979,365</u></u>

See accompanying notes to financial statements.

TENNESSEE SCHOOL BOARDS ASSOCIATION  
STATEMENTS OF CASH FLOWS

	Year Ended December 31,	
	2016	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from customers and users	\$ 2,017,894	\$ 1,806,221
Receipts from government grants	227,559	224,981
Payments to suppliers	(976,158)	(789,389)
Payments to or on behalf of employees	(1,070,520)	(1,065,406)
Net cash provided by operating activities	198,775	176,407
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Purchase of capital assets	(81,062)	(16,118)
Proceeds from sales of capital assets	-	50
Net cash used in capital and related financing activities	(81,062)	(16,068)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of investments, net	(144,402)	(12,949)
Interest received	58,404	18,556
Net cash (used in) provided by investing activities	(85,998)	5,607
Net increase in cash and cash equivalents	31,715	165,946
Cash and cash equivalents, beginning of year	621,442	455,496
Cash and cash equivalents, end of year	\$ 653,157	\$ 621,442
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Operating income	\$ 242,079	\$ 164,920
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	51,541	69,253
Changes in operating assets and liabilities:		
Accounts receivable, net	37,022	(75,714)
Prepaid expenses	(1,054)	(1,639)
Accounts payable	(2,101)	5,144
Unearned revenues	(12,916)	74,110
Compensated absences	909	316
Net pension liability and related amounts	(116,705)	(59,983)
Total adjustments	(43,304)	11,487
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>\$ 198,775</b>	<b>\$ 176,407</b>

See accompanying notes to financial statements.

TENNESSEE SCHOOL BOARDS ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016 AND 2015

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting framework and the significant accounting principles and practices of the Tennessee School Boards Association (“TSBA”) are discussed in subsequent sections of this Note. The remainder of the Notes are organized to provide explanations, including required disclosures, of the TSBA’s financial activities for the fiscal years ended December 31, 2016 and 2015.

Reporting Entity and Related Entities

The Tennessee School Boards Association was established in 1939 to provide services for local public school districts. In 1953, the Tennessee Legislature officially recognized the TSBA as “the organization and representative agency of the members of school boards of Tennessee” and further authorized the TSBA to provide services by collecting dues from school boards.

As described in GASB Statement No. 34, paragraph 134, TSBA meets the definition of a special purpose government (“SPG”). TSBA is a legally separate entity that is engaged in only business-type activities. Business-type activities are defined as activities that are financed in whole or in part by fees charged to external parties for goods or services. SPGs engaged only in business-type activities are required to present only the financial statements required for proprietary funds, which includes Management’s Discussion and Analysis (“MD&A”), basic financial statements, and Required Supplementary Information (“RSI”).

The governing body of TSBA is its Board of Directors, composed of 18 members, 14 of whom are elected and four of whom are appointed by the elected TSBA Board of Directors.

Measurement Focus, Basis of Accounting and Basis of Presentation

The financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

TSBA distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from grant agreements and providing services and producing and delivering goods in connection with the principal ongoing operations. The principal operating revenues of TSBA include charges to members or applicants for goods, services, or privileges provided, and operating grants. Operating expenses include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

TENNESSEE SCHOOL BOARDS ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016 AND 2015

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

All of the TSBA's assets and liabilities, including capital assets and long-term liabilities, are included in the accompanying statements of net position. Net position is reported in three components, when applicable:

*Investment in Capital Assets* - This component of net position consists of capital assets, net of accumulated depreciation of those assets. If TSBA had debt related to the acquisition or construction of capital assets, this net position category would be presented "net" of such related debt. At December 31, 2016 and 2015, TSBA had no debt directly related to its capital assets.

*Restricted* - This component consists of net position restricted by grantors, contributors, or laws and regulations of other governments and restrictions imposed by law or through constitutional provisions or enabling legislation, reduced by liabilities and deferred inflows of resources related to those assets. At December 31, 2016 and 2015, TSBA did not have restricted net position.

*Unrestricted* - This component of net position consists of net position that does not meet the definition of "investment in capital assets" or "restricted."

Cash and Cash Equivalents

Cash and cash equivalents include cash deposits in checking and investment accounts and certificates of deposit, with original maturities of three months or less. Cash and cash equivalents are reported at carrying amounts which reasonably estimate fair value.

Investments

Investments that mature more than three months after date of purchase are reported at fair value. Fair value is the last reported sales price at current exchange rates on a national exchange (See Note B).

Capital Assets

TSBA's capital assets with cost generally exceeding \$1,000 and useful lives of more than one year are stated at historical cost. The costs of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. Capital assets are depreciated using the straight-line method.

TENNESSEE SCHOOL BOARDS ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016 AND 2015

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Estimated useful lives for depreciable assets are as follows:

Building	40 years
Land improvements	20 years
Automobiles	5 years
Furniture/fixtures	5 - 7 years

Maintenance and repairs are charged to operations when incurred. Betterments and major improvements, which significantly increase values, change capacities or extend useful lives are capitalized. Upon sale or retirement of capital assets, the cost and related accumulated depreciation are removed from the respective accounts, and any gain or loss is included in the results of operations.

Deferred Outflows/Inflows of Resources

In addition to assets, the statements of net position report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then.

TSBA's deferred outflows of resources relate to its participation in the pension plan administered by the Tennessee Consolidated Retirement System ("TCRS") pension plan. Deferred outflows of resources related to pensions may result from actuarial losses related to the differences between expected and actual experience for the pension plan's adopted economic and demographic assumptions, differences between expected and actual investment earnings, as well as employer contributions made subsequent to the measurement date (See Note F).

In addition to liabilities, the statements of net position report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until then.

TSBA's deferred inflows of resources relate to the TCRS pension plan. Deferred inflows of resources may result from actuarial gains related to the difference between expected and actual experience for the plan's adopted economic and demographic assumptions and differences between expected and actual earnings on plan investments (See Note F).

TENNESSEE SCHOOL BOARDS ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016 AND 2015

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Compensated Absences

It is the policy of TSBA to permit employees to accumulate amounts of earned, but unused, vacation pay benefits up to 90 hours, which will be paid to the employee upon separation from service. At December 31, 2016 and 2015, a long-term liability for accrued compensated absences has been recorded representing TSBA's commitment to fund such costs with future financial resources.

Unearned Revenues

Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

In the basic financial statements, membership dues for fiscal year 2017 and 2016, are billed during fiscal year 2016 and 2015, and have been recorded as unearned revenue totaling \$771,106 and \$781,397, respectively. Policy department fees for multiple year policy contracts and other amounts that were billed during fiscal year 2016 and 2015 have also been booked as unearned revenue totaling \$249,125 and \$251,750, respectively.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Income Taxes

TSBA is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code.

Risk Management

TSBA is exposed to normal business risks and carries insurance for various exposures such as property damage, automobile liability, executive protection and workers' compensation. There have been no significant changes in coverage or settlements in excess of insurance coverage during the past three years.

TENNESSEE SCHOOL BOARDS ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016 AND 2015

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Fair Value of Financial Instruments

Assets and liabilities recorded at fair value in the statements of financial position are categorized based on the level of judgment associated with the inputs used to measure their fair value. Level inputs, are as follows:

Level 1 - Values are unadjusted quoted prices for identical assets in active markets accessible at the measurement date.

Level 2 - Inputs include quoted prices for similar assets in active markets, quoted prices from those willing to trade in markets that are not active, or other inputs that are observable or can be corroborated by market data for the term of the instrument. Such inputs include market interest rates and volatilities, spreads and yield curves.

Level 3 - Certain inputs are unobservable (supported by little or no market activity) and significant to the fair value measurement. Unobservable inputs reflect the best estimate of what hypothetical market participants would use to determine a transaction price for the asset or liability at the reporting date.

TSBA's financial instruments consist of cash equivalents, accounts receivable, investments, and accounts payable. The recorded values of accounts receivable and accounts payable approximate their fair values based on their short-term nature or market interest rates. Cash equivalents and investments are recorded at fair value using Level 1 inputs.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of TSBA's participation in the Public Employee Retirement Plan of the TCRS, and additions to/deductions from TSBA's fiduciary net position have been determined on the same basis as they are reported by the TCRS for the Public Employee Retirement Plan. For this purpose, benefits (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms of the Public Employee Retirement Plan of TCRS. Investments are reported at fair value.

Reclassifications

Certain reclassifications have been made to the 2015 amounts in the financial statements to conform with the presentation adopted for 2016.

TENNESSEE SCHOOL BOARDS ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016 AND 2015

B. CASH, CASH EQUIVALENTS, AND INVESTMENTS

Deposit and Investment Policy

TSBA's policy for deposits and investments distinguishes between operating reserves and investment reserves and capital reserves. Operating reserves shall be deposited in federally insured certificates of deposit, savings accounts, and money market funds that invest in government backed securities. Irrespective of the investment accounts selected, no operating reserves shall be invested in any security with a maturity exceeding one year.

Investment reserves may be invested as follows:

1. Federally insured certificates of deposit, savings accounts, and money market funds that invest in government backed securities.
2. Bank repurchase agreements, bankers' acceptances, and commercial paper.
3. U.S. Treasury Bills and U.S. government securities that are backed by the full faith and credit of the U. S. government.
4. AAA rated bonds.

Capital reserves, equities, and fixed income investments are each limited to a maximum of 70% of the portfolio with targets of 60% and 40%, respectively, with the exception that the above formula may be altered to either reduce market risk or optimize opportunities to capitalize on expected market movement. Maturities of fixed income securities will not exceed 10 years. At December 31, 2016 and 2015, TSBA is invested in exchange - traded mutual funds with a broad-range of underlying investments. TSBA employs an outside investment firm to manage its portfolio and mentor compliance with its investment policies.

Deposits in financial institutions are required by State statute to be secured and collateralized by the institutions. The collateral must meet certain requirements and must have a total minimum market value of 105% of the value of the deposits placed in the institutions, less the amount protected by federal depository insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies and obligations of the State and its subdivisions. Collateral requirements are not applicable for financial institutions that participate in the State of Tennessee's collateral pool. As of December 31, 2016 and 2015, the majority of the TSBA's deposits were held by financial institutions that participate in the bank collateral pool administered by the Treasurer of the State of Tennessee. Participating banks determine the aggregated balance of their public fund accounts. The amount of collateral required to secure these public deposits must be at least 105% of the average daily balance of all public deposits held. Collateral securities required to be pledged by the participating banks to protect their public fund accounts are pledged to the State Treasurer on behalf of the bank collateral pool.

TENNESSEE SCHOOL BOARDS ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016 AND 2015

B. CASH, CASH EQUIVALENTS, AND INVESTMENTS - Continued

The securities pledged to protect these accounts are pledged in the aggregate rather than against each individual account. The members of the pool may be required by agreement to pay an assessment to cover any deficiency. Under this additional assessment agreement, public fund accounts covered by the pool are considered to be insured for purposes of credit risk disclosure in accordance with GASB Statement No. 40, *Deposit and Investment Risk Disclosures*.

Cash and Cash Equivalents

The carrying amount of the cash and cash equivalents at December 31, 2016 and 2015 totaled \$653,157 and \$621,442, respectively, and the corresponding bank balances were \$659,453 and \$657,601, respectively. The difference between the carrying amounts of cash and cash equivalents and the corresponding bank balances is due primarily to outstanding checks and deposits. The balance of cash and cash equivalents was covered by the State collateral pool, federal depository insurance or collateralized with securities held by TSBA's agent in TSBA's name.

Investments

TSBA's investments consist of the following:

	December 31, 2016	
	Fair Value/ Carrying Amount	Cost
Cash and cash equivalents	\$ 25,435	\$ 25,435
Exchange traded and mutual funds	2,282,314	2,188,398
Total	\$2,307,749	\$2,213,833

	December 31, 2015	
	Fair Value/ Carrying Amount	Cost
Cash and cash equivalents	\$ 64,654	\$ 64,654
Exchange traded and mutual funds	2,042,165	2,058,108
Total	\$2,106,819	\$2,122,762

Investments are valued using Level 1 inputs, as described in Note A.

TENNESSEE SCHOOL BOARDS ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016 AND 2015

C. CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2016, is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land	\$ 195,500	\$ -	\$ -	\$ 195,500
Capital assets subject to depreciation:				
Building and improvements	\$ 1,421,929	\$ 67,815	\$ -	\$ 1,489,744
Automobiles	33,342	-	-	33,342
Furniture/fixtures	<u>267,603</u>	<u>13,247</u>	<u>(6,143)</u>	<u>274,707</u>
Total cost	<u>1,722,874</u>	<u>81,062</u>	<u>(6,143)</u>	<u>1,797,793</u>
Less accumulated depreciation for:				
Building and improvements	( 301,289)	(37,296)	-	( 338,585)
Automobiles	( 18,893)	( 6,668)	-	( 25,561)
Furniture/fixtures	<u>( 251,434)</u>	<u>( 7,577)</u>	<u>6,143</u>	<u>( 252,868)</u>
Total	<u>( 571,616)</u>	<u>(51,541)</u>	<u>6,143</u>	<u>( 617,014)</u>
Capital assets subject to depreciation, net	<u>\$ 1,151,258</u>	<u>\$ 29,521</u>	<u>\$ -</u>	<u>\$ 1,180,779</u>

TENNESSEE SCHOOL BOARDS ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016 AND 2015

C. CAPITAL ASSETS - Continued

Capital assets activity for the year ended December 31, 2015, is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land	\$ 195,500	\$ -	\$ -	\$ 195,500
Capital assets subject to depreciation:				
Building and improvements	\$ 1,416,787	\$ 5,142	\$ -	\$ 1,421,929
Automobiles	33,342	-	-	33,342
Furniture/fixtures	<u>267,838</u>	<u>10,976</u>	<u>(11,211)</u>	<u>267,603</u>
Total cost	<u>1,717,967</u>	<u>16,118</u>	<u>(11,211)</u>	<u>1,722,874</u>
Less accumulated depreciation for:				
Building and improvements	( 264,889)	(36,400)	-	( 301,289)
Automobiles	( 12,225)	( 6,668)	-	( 18,893)
Furniture/fixtures	<u>( 236,460)</u>	<u>(26,185)</u>	<u>11,211</u>	<u>( 251,434)</u>
Total	<u>( 513,574)</u>	<u>(69,253)</u>	<u>11,211</u>	<u>( 571,616)</u>
Capital assets subject to depreciation, net	<u>\$ 1,204,393</u>	<u>\$(53,135)</u>	<u>\$ -</u>	<u>\$ 1,151,258</u>

TENNESSEE SCHOOL BOARDS ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016 AND 2015

D. COMPENSATED ABSENCES

The following is a summary of changes in compensated absences for the years ended December 31:

	December 31, 2016			
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Payments</u>	<u>Ending Balance</u>
Liability for accrued vacation leave	<u>\$25,617</u>	<u>\$42,216</u>	<u>\$(41,307)</u>	<u>\$26,526</u>

	December 31, 2015			
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Payments</u>	<u>Ending Balance</u>
Liability for accrued vacation leave	<u>\$25,301</u>	<u>\$39,187</u>	<u>\$(38,871)</u>	<u>\$25,617</u>

E. STATE OF TENNESSEE DEPARTMENT OF EDUCATION GRANTS

*School Board Academies*

During 2016, TSBA entered into a grant contract with the State of Tennessee. Under the provisions of the grant contract, which was effective for the 12 months beginning on July 1, 2016 and ending June 30, 2017, TSBA agreed to update up to 10 modules to be used in training school board members using state-of-the-art instructional technology and activities. The maximum compensation allowable under the provisions of this agreement is \$229,300, which includes per diem reimbursement for board members attending school board academy functions. As of December 31, 2016, \$63,411 was accrued on this grant and included in receivables.

During 2015, TSBA entered into a grant contract with the State of Tennessee. Under the provisions of the grant contract, which was effective for the 12 months beginning on July 1, 2015 and ending June 30, 2016, TSBA agreed to update up to 10 modules to be used in training school board members using state-of-the-art instructional technology and activities. The maximum compensation allowable under the provisions of this agreement is \$229,300, which includes per diem reimbursement for board members attending school board academy functions. As of December 31, 2015, \$33,283 was accrued on this grant and included in receivables.

TENNESSEE SCHOOL BOARDS ASSOCIATION  
 NOTES TO FINANCIAL STATEMENTS  
 DECEMBER 31, 2016 AND 2015

E. STATE OF TENNESSEE DEPARTMENT OF EDUCATION GRANTS - Continued

Revenue from these grants is summarized as follows:

	2016	2015
2014 - 2015 contract	\$ -	\$133,248
2015 - 2016 contract	176,189	51,035
2016 - 2017 contract	81,498	-
	\$257,687	\$184,283

F. PENSION PLAN

*General Information about the Pension Plan:*

Plan Description

Employees of TSBA are provided a defined benefit pension plan through the Public Employee Retirement Plan, an agent multiple-employer pension plan administered by the Tennessee Consolidated Retirement System (“TCRS”). The TCRS was created by state statute under Tennessee Code Annotated Title 8, Chapters 34-37. The TCRS Board of Trustees is responsible for the proper operation and administration of the TCRS. The Tennessee Treasury Department, an agency in the legislative branch of state government, administers the plans of the TCRS. The TCRS issues a publically available financial report that can be obtained at [www.treasury.tn.gov/tcrs](http://www.treasury.tn.gov/tcrs).

Benefits Provided

Tennessee Code Annotated Title 8, Chapters 34-37 establishes the benefit terms and can be amended only by the Tennessee General Assembly. The chief legislative body may adopt the benefit terms permitted by statute. Members are eligible to retire with an unreduced benefit at age 60 with 5 years of service credit or after 30 years of service credit regardless of age. Benefits are determined by a formula using the member’s highest five consecutive year average compensation and the member’s years of service credit. Reduced benefits for early retirement are available at age 55 and vested. Members vest with five years of service credit. Service related disability benefits are provided regardless of length of service. Five years of service is required for non-service related disability eligibility. The service related and non-service related disability benefits are determined in the same manner as a service retirement benefit but are reduced 10 percent and include projected service credits. A variety of death benefits are available under various eligibility criteria.

TENNESSEE SCHOOL BOARDS ASSOCIATION  
 NOTES TO FINANCIAL STATEMENTS  
 DECEMBER 31, 2016 AND 2015

F. PENSION PLAN - Continued

Member and beneficiary annuitants are entitled to automatic cost of living adjustments (“COLAs”) after retirement. A COLA is granted each July for annuitants retired prior to the 2<sup>nd</sup> of July of the previous year. The COLA is based on the change in the consumer price index (“CPI”) during the prior calendar year, capped at 3 percent, and applied to the current benefit. No COLA is granted if the change in the CPI is less than one-half percent. A one percent COLA is granted if the CPI change is between one-half percent and one percent. A member who leaves employment may withdraw their employee contributions, plus any accumulated interest.

Employees Covered by Benefit Terms

At the measurement date of June 30, 2016, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	15
Inactive employees entitled to but not yet receiving benefits	31
Active employees	<u>8</u>
	<u>54</u>

Contributions

Contributions for employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. Employees are non-contributory. TSBA makes employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. For the measurement years ended June 30, 2016 and 2015, the actuarially determined contributions (“ADC”) for TSBA were \$120,508 and \$126,884, respectively, based on rates of 15.62 percent of covered payroll for both years. By law, employer contributions are required to be paid. The TCRS may intercept TSBA’s state shared taxes if required employer contributions are not remitted. The employer’s ADC and member contributions are expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

*Net Pension Liability:*

TSBA’s net pension liability as of December 31, 2016 was measured as of June 30, 2016, and the total pension liability used to calculate net pension liability was determined by an actuarial valuation as of that date. TSBA’s net pension liability as of December 31, 2015 was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by actuarial valuation as of that date.

TENNESSEE SCHOOL BOARDS ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016 AND 2015

F. PENSION PLAN - Continued

Actuarial Assumptions

The total pension liability as of June 30, 2016 and 2015, actuarial valuations was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0%
Salary increase	Graded salary ranges from 8.97% to 3.71% based on age, including inflation, averaging 4.25%
Investment rate of return	7.5%, net of pension plan investment expenses, including inflation
Cost-of-living adjustment	2.5%

Mortality rates were based on actual experience from the June 30, 2012 actuarial experience study adjusted for some of the expected future improvement in life expectancy.

The actuarial assumptions used in the June 30, 2016 and 2015 actuarial valuations were based on the results of an actuarial experience study performed for the period July 1, 2008 through June 30, 2012. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees in conjunction with the June 30, 2012 actuarial experience study by considering the following three techniques: (1) the 25-year historical return of the TCRS at June 30, 2012, (2) the historical market returns of asset classes from 1926 to 2012 using the TCRS investment policy asset allocation, and (3) capital market projections that were utilized as a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. Four sources of capital market projections were blended and utilized in the third technique. The blended capital market projection established the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding inflation of 3 percent.

TENNESSEE SCHOOL BOARDS ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016 AND 2015

F. PENSION PLAN - Continued

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>	<u>Target Allocation</u>
U.S. equity	6.46%	33%
Developed market international equity	6.26%	17%
Emerging market international equity	6.40%	5%
Private equity and strategic lending	4.61%	8%
U.S. fixed income	0.98%	29%
Real estate	4.73%	7%
Short-term securities	0.00%	<u>1%</u>
		<u>100%</u>

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees as 7.5 percent based on a blending of the three factors described above.

Discount Rate

The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current rate and that contributions from TSBA will be made at the actuarially determined contribution rate pursuant to an actuarial valuation in accordance with the funding policy of the TCRS Board of Trustees and as required to be paid by state statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

TENNESSEE SCHOOL BOARDS ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016 AND 2015

F. PENSION PLAN - Continued

*Changes in the Net Pension Liability – 2016:*

	<u>Total Pension Liability</u>	Increase (Decrease) <u>Plan Fiduciary Net Position</u>	<u>Net Pension Liability</u>
	(a)	(b)	(a) - (b)
Balance at June 30, 2015 measurement date	\$ 4,012,031	\$ 3,538,627	\$ 473,404
Changes for the year:			
Service cost	42,312	-	42,312
Interest	298,575	-	298,575
Differences between expected and actual experience	( 146,639)	-	(146,639)
Contributions-employer	-	120,508	(120,508)
Net investment income	-	93,500	( 93,500)
Benefit payments, including refunds of employee contributions	( 146,676)	( 146,676)	-
Administrative expense	<u>-</u>	<u>( 583)</u>	<u>583</u>
Net changes	<u>47,572</u>	<u>66,749</u>	<u>( 19,177)</u>
Balance at June 30, 2016 measurement date	<u>\$ 4,059,603</u>	<u>\$ 3,605,376</u>	<u>\$ 454,227</u>

TENNESSEE SCHOOL BOARDS ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016 AND 2015

F. PENSION PLAN - Continued

*Changes in the Net Pension Liability – 2015:*

	<u>Total Pension Liability</u>	Increase (Decrease) <u>Plan Fiduciary Net Position</u>	<u>Net Pension Liability</u>
	(a)	(b)	(a) - (b)
Balance at June 30, 2014 measurement date	\$ 3,867,046	\$ 3,452,301	\$ 414,745
Changes for the year:			
Service cost	46,038	-	46,038
Interest	288,002	-	288,002
Differences between expected and actual experience	( 42,929)	-	( 42,929)
Contributions-employer	-	126,884	(126,884)
Net investment income	-	106,025	(106,025)
Benefit payments, including refunds of employee contributions	( 146,126)	( 146,126)	-
Administrative expense	-	( 457)	457
Net changes	<u>144,985</u>	<u>86,326</u>	<u>58,659</u>
Balance at June 30, 2015 measurement date	<u>\$ 4,012,031</u>	<u>\$ 3,538,627</u>	<u>\$ 473,404</u>

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability as of June 30, 2016, using the discount rate of 7.5 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate:

	<u>1% Decrease (6.5%)</u>	<u>Current Discount Rate (7.5%)</u>	<u>1% Increase (8.5%)</u>
TSBA's net pension liability (asset)	\$1,028,906	\$454,227	\$(21,396)

TENNESSEE SCHOOL BOARDS ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016 AND 2015

F. PENSION PLAN - Continued

*Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions:*

Pension Expense

For the years ended December 31, 2016 and 2015, TSBA recognized pension expense of \$62,926 and \$64,644, respectively.

Deferred Outflows of Resources and Deferred Inflows of Resources

As of December 31, 2016 and 2015, TSBA reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
<u>2016:</u>		
Differences between expected and actual experience	\$ 22,619	\$131,444
Net difference between projected and actual earnings on pension plan investments	120,031	-
Contributions subsequent to the measurement date of June 30, 2016	<u>120,179</u>	<u>-</u>
Total	<u>\$262,829</u>	<u>\$131,444</u>
 <u>2015:</u>		
Differences between expected and actual experience	\$ 45,239	\$ 32,197
Net difference between projected and actual earnings on pension plan investments	-	40,241
Contributions subsequent to the measurement date of June 30, 2015	<u>61,056</u>	<u>-</u>
Total	<u>\$106,295</u>	<u>\$ 72,438</u>

The amount shown above for “Contributions subsequent to the measurement date” will be recognized as a reduction to net pension liability in the following measurement period.

TENNESSEE SCHOOL BOARDS ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016 AND 2015

F. PENSION PLAN - Continued

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions as of December 31, 2016, will be recognized in pension expense as follows:

<u>Year Ended December 31,</u>	
2017	\$(14,150)
2018	(36,770)
2019	27,951
2020	34,175

In the table shown above, positive amounts will increase pension expense while negative amounts will decrease pension expense.

G. POSTEMPLOYMENT HEALTHCARE PLAN

TSBA participates in the state-administered Local Government Group Insurance Plan for healthcare benefits. For accounting purposes, the plan is an agent multiple-employer defined benefit OPEB plan. Benefits are established and amended by an insurance committee created by TCA 8-27-207 (local governments). Prior to reaching the age of 65, all members have the option of choosing from three Preferred Provider Organizations (PPO) for healthcare benefits: Partnership PPO, Standard PPO, or Limited PPO. The plan is reported in the State of Tennessee Comprehensive Annual Financial Report (“CAFR”). The CAFR is available on the State’s website at <http://tennessee.gov/finance/act/cafr.html>.

The premium requirements of plan members are established and may be amended by the insurance committee. The plans are self-insured and financed on a pay-as-you-go basis with the risk shared equally among the participants. Claims liabilities of the plan are periodically computed using actuarial and statistical techniques to establish premium rates. The employers in each plan develop their own contribution policy in terms of subsidizing active employees’ or retired employees’ premiums since the committee is not prescriptive on that issue. The State does not provide a subsidy.

Under the plan, TSBA pays a portion of the medical insurance premium for eligible retired employees and their spouses prior to age 65. To be eligible, employees must have 10 years of qualifying service. The portion of the medical insurance premium covered is dependent on the retiree’s years of service. As of December 31, 2016 and 2015, TSBA’s liability under the plan is not material to the financial statements or for further disclosure.

**REQUIRED SUPPLEMENTARY INFORMATION**

TENNESSEE SCHOOL BOARDS ASSOCIATION  
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND  
RELATED RATIOS BASED ON PARTICIPATION IN  
THE PUBLIC EMPLOYEE PENSION PLAN OF TCRS  
YEAR ENDING DECEMBER 31  
(MEASUREMENT YEAR ENDING JUNE 30)  
(UNAUDITED)

	<u>2016</u>	<u>2015</u>	<u>2014</u>
<b>TOTAL PENSION LIABILITY</b>			
Service cost	\$ 42,312	\$ 46,038	\$ 46,753
Interest	298,575	288,002	268,516
Change in benefit terms	-	-	-
Difference between expected and actual experience	( 146,639)	( 42,929)	90,479
Change of assumptions	-	-	-
Benefit payments	<u>( 146,676)</u>	<u>( 146,126)</u>	<u>( 144,342)</u>
Net change in total pension liability	47,572	144,985	261,406
Total pension liability beginning	<u>4,012,031</u>	<u>3,867,046</u>	<u>3,605,640</u>
Total pension liability ending (a)	<u>\$ 4,059,603</u>	<u>\$ 4,012,031</u>	<u>\$ 3,867,046</u>
<b>PLAN FIDUCIARY NET POSITION</b>			
Contributions - employer	\$ 120,508	\$ 126,884	\$ 116,086
Net investment income	93,500	106,025	492,973
Benefit payments	( 146,676)	( 146,126)	( 144,342)
Administrative expenses	<u>( 583)</u>	<u>( 457)</u>	<u>( 486)</u>
Net change in plan fiduciary net position	66,749	86,326	464,231
Plan fiduciary net position - beginning	<u>3,538,627</u>	<u>3,452,301</u>	<u>2,988,070</u>
Plan fiduciary net position - ending (b)	<u>\$ 3,605,376</u>	<u>\$ 3,538,627</u>	<u>\$ 3,452,301</u>
Net pension liability (a) - (b)	<u>\$ 454,227</u>	<u>\$ 473,404</u>	<u>\$ 414,745</u>
Plan fiduciary net position as a percentage of total pension liability	88.81%	88.20%	89.27%
Covered payroll	\$771,501	\$812,320	\$ 739,872
Net pension liability as a percentage of covered payroll	58.88%	58.28%	56.06%

*This is a 10-year schedule; however, the information in this schedule is not required to be presented retroactively. Years will added to this schedule in future fiscal years until 10 years of information is available.*

See accompanying notes to required supplementary information.

TENNESSEE SCHOOL BOARDS ASSOCIATION  
SCHEDULE OF EMPLOYER CONTRIBUTIONS BASED ON PARTICIPATION  
IN THE PUBLIC EMPLOYEE PENSION PLAN OF TCRS  
MEASUREMENT YEAR ENDING JUNE 30  
(UNAUDITED)

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Actuarially determined contribution	\$120,508	\$126,884	\$116,086
Contributions in relation to the actuarially determined contribution	<u>120,508</u>	<u>126,884</u>	<u>116,086</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$771,501	\$812,320	\$739,872
Contributions as a percentage covered payroll	15.62%	15.62%	15.69%

*This is a 10-year schedule; however, the information in this schedule is not required to be presented retroactively. Years will added to this schedule in future fiscal years until 10 years of information is available.*

See accompanying notes to required supplementary information.

TENNESSEE SCHOOL BOARDS ASSOCIATION  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

*Valuation date:* Actuarially determined contribution rates were calculated based on the June 30, 2015 actuarial valuation.

*Methods and assumptions used to determine contribution rates:*

Actuarial cost method	Frozen initial liability
Amortization method	Level dollar, closed (not to exceed 20 years)
Remaining amortization period	Varies by year
Asset valuation	10-year smoothed within a 20 percent corridor to market value
Inflation	3.0 percent
Salary increases	Graded salary ranges from 8.97 to 3.71 percent based on age, including inflation
Investment rate of return	7.5 percent, net of investment expense, including inflation
Retirement age	Pattern of retirement determined by experience study
Mortality	Customized table based on actual experience including an adjustment for some anticipated improvement
Cost of living adjustments	2.5 percent

Information regarding the annual money - weighted rate of return for the pension plan can be found in the separate plan report issued by TCRS.

See accompanying notes to required supplementary information.

## **OTHER INFORMATION**

TENNESSEE SCHOOL BOARDS ASSOCIATION  
 SCHEDULE OF EXPENDITURES OF STATE AWARDS  
 YEAR ENDED DECEMBER 31, 2016

<u>Program Name</u>	<u>RFS</u> <u>Number</u>	<u>State Grant</u> <u>Grantor Agency</u>	Balance at 1/1/2016 (Receivable) <u>Payable</u>	<u>Receipts</u>	<u>Expenditures</u>	Balance at 12/31/2016 (Receivable) <u>Payable</u>
School Board						
Academies	33105-00314	TN Dept. of Education	\$(33,283)	\$227,559	\$(257,687)	\$(63,411)
	Total state awards		<u>\$(33,283)</u>	<u>\$227,559</u>	<u>\$(257,687)</u>	<u>\$(63,411)</u>

NOTE - BASIS OF PRESENTATION

The schedule of expenditures of state awards is presented in accordance with the requirements of the *State of Tennessee Audit Manual*, on the accrual basis of accounting.

See independent auditor's report.

INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT  
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH GOVERNMENT AUDITING STANDARDS

The Board of Directors  
Tennessee School Boards Association  
Nashville, Tennessee

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Tennessee School Boards Association (“TSBA”) as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise TSBA’s basic financial statements, as listed in the table of contents, and have issued our report thereon dated August 9, 2017.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered TSBA’s internal control over financial reporting (“internal control”) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of TSBA’s internal control. Accordingly, we do not express an opinion on the effectiveness of TSBA’s internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether TSBA's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of TSBA's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering TSBA's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Crosslin, PLLC*

Nashville, Tennessee  
August 9, 2017

TENNESSEE SCHOOL BOARDS ASSOCIATION  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
YEAR ENDED DECEMBER 31, 2016

TSBA had no prior audit findings.